

**Safeway Stores plc**

Annual report and accounts  
for the year ended 30 March 2002

Registered number: 746956



## LIST OF CONTENTS

	<u>Page</u>
Directors and Administration	1
Report of the Directors	2
Directors' Responsibilities	6
Report of the Auditors	7
Group Profit and Loss Account	8
Balance Sheets	9
Statement of Accounting Policies	10
Notes to the Accounts	13

## DIRECTORS AND ADMINISTRATION

Country of Registration	England
Registered Number	746956
Registered Office	6 Millington Road, Hayes, Middlesex, UB3 4AY.
Directors	M.T. Aylwin F.J. Bailey K.A. Bray L.R. Christensen C. Criado-Perez J.O. Davies J. Durkan R. Francis F. Garcia-Valencia S.T. Laffin J. Maclachlan J.L. Sinclair S.J. Webb D.G.C. Webster J.A. White R.G. Williams D. Wilson
Company Secretary	D. Wilson
Solicitors	Clifford Chance
Auditors	KPMG Audit Plc

## **REPORT OF THE DIRECTORS**

### **FOR THE YEAR ENDED 30 MARCH 2002**

The directors present their annual report on the affairs of the group and of the company together with the accounts and auditors' report for the year ended 30 March 2002.

#### **Principal activity and business review**

The principal activity of the group continues to be grocery retailing in the United Kingdom. The company is the principal operating subsidiary of Safeway plc.

The subsidiary undertakings held by the company are listed in Note 11(c) to the accounts.

#### **Results and dividends**

The audited accounts for the year ended 30 March 2002 are set out on pages 8 to 27.

Group sales for the year, including its share of the BP joint venture, were £9,395.6 million (2001 - £8,937.3 million). The group's underlying profit on ordinary activities before taxation amounted to £383.8 million (2001 - £342.6 million) before exceptional costs (see Note 22).

The profit attributable to ordinary shareholders for the year amounted to £244.2 million (2001 - £234.7 million).

An interim dividend of £30.5 million was paid during the year (2001 - £29.5 million). The directors recommend the payment of a second interim dividend in respect of the year ended 30 March 2002 of 28.75p per ordinary share totalling £66.0 million (2001 - £63.0 million). The directors do not recommend the payment of a final dividend for the year ended 30 March 2002 (2001 - £Nil).

#### **Directors**

The directors who served during the year were as follows:-

F.J. Bailey	- appointed 24 June 2001	J. Maclachlan	- appointed 24 June 2001
K.A. Bray	- appointed 24 June 2001	R.C. Ramsden	- resigned 4 May 2001
L.R. Christensen		J.L. Sinclair	- appointed 24 June 2001
C. Criado-Perez		S.J. Webb	- appointed 20 August 2001
J.O. Davies	- appointed 24 June 2001	D.G.C. Webster	
R. Francis	- appointed 3 September 2001	J.A. White	- appointed 24 June 2001
F. Garcia-Valencia	- appointed 11 March 2002	R.G. Williams	
J.P. Kinch	- resigned 13 October 2001	D. Wilson	- appointed 18 September 2001
S.T. Laffin			

On 31 May 2002, Mr. M.T. Aylwin and Mr. J. Durkan were appointed as directors of the company.

## **REPORT OF THE DIRECTORS (Continued)**

### **Directors' interests**

The company is a wholly-owned subsidiary of Safeway plc and consequently none of the directors have any interest in the shares of the company.

The following directors who were not also directors of the company's ultimate holding company at 30 March 2002 had the following interests in the ordinary 25p shares of Safeway plc at the end of the year as indicated below:-

	<u>30 March 2002</u>		<u>31 March 2001</u>		
	<u>Shares</u>	<u>Share options</u>	<u>Shares</u>	<u>Share options</u>	
F.J. Bailey	16,923	254,748	16,923	204,748	*
K.A. Bray	3,876	238,000	3,876	185,000	*
J.O. Davies	16,923	304,272	16,923	248,000	*
R. Francis	-	60,000	-	-	*
F. Garcia-Valencia	-	-	-	-	*
J. Maclachlan	39,702	351,618	20,358	285,618	*
J.L. Sinclair	33,179	374,586	11,763	292,884	*
S.J. Webb	18,939	245,272	3,939	198,272	*
D. Wilson	-	60,000	-	-	*
J.A. White	21,658	337,188	4,460	284,188	*

\* at date of appointment

Share options granted to and exercised by directors during the year are set out below:-

	<u>Granted</u>	<u>Exercised</u>		<u>Granted</u>	<u>Exercised</u>
F.J. Bailey	50,000	-	J.L. Sinclair	82,000	952
K.A. Bray	53,000	-	S.J. Webb	47,000	-
J.O. Davies	56,272	-	J.A. White	53,000	-
R. Francis	60,000	-	D. Wilson	60,000	-
J. Maclachlan	66,000	-			

At the year end Mr. D.G.C. Webster, Mr. S.T. Laffin, Mr. C. Criado-Perez, Mr L.R. Christensen and Mr. R.G. Williams were all directors of Safeway plc and their interests in the shares of Safeway plc are disclosed in the accounts of that company.

## **REPORT OF THE DIRECTORS (Continued)**

The share options referred to above relate to options granted under the Safeway Executive Share Option Scheme and/or The Safeway Sharesave Scheme and enable the option holder to subscribe for ordinary 25p shares of Safeway plc. Details of options currently outstanding are:-

<u>Date of Grant</u>	<u>Subscription price</u>	<u>Last date when options exercisable</u>
26 November 1992	363.00p	25 November 2002
6 December 1993	255.00p	5 December 2003
13 December 1994	237.00p	12 December 2004
19 December 1995	308.00p	18 December 2005
9 December 1996	375.50p	8 December 2006
26 June 1997	286.00p	28 February 2003
21 November 1997	318.75p	20 November 2007
25 June 1998	307.00p	29 February 2004
8 December 1998	283.00p	7 December 2008
23 June 1999	204.00p	28 February 2005
17 August 1999	233.50p	16 August 2009
29 November 1999	182.75p	28 November 2009
12 June 2000	246.00p	11 June 2010
28 June 2000	197.00p	28 February 2006
4 January 2001	296.00p	3 January 2011
27 June 2001	296.00p	28 February 2007
22 November 2001	328.50p	21 November 2011

Executive scheme options granted prior to 19 December 1995 are all available for exercise as all relevant performance criteria have been met.

Executive scheme options granted on and since 19 December 1995 will become exercisable normally only when the earnings per share growth of the ultimate holding company, over a three year period, has exceeded the increase in the Retail Prices Index over that same three year period by an average of at least 2% per annum.

At no time during the year or subsequently did any director have a material interest in any contract or arrangement with the company or any of its subsidiaries which was significant in relation to the group's business.

## **REPORT OF THE DIRECTORS (Continued)**

### **Supplier payment policy**

A strategic objective of the group is to have mutually beneficial long-term relationships with our suppliers and we seek to settle, in advance, the terms of payment with suppliers and abide by those terms. The average number of days credit taken by the company and the group for trade purchases at 30 March 2002 was 33 days (2001 - 36 days), whereas the average during the year was 31 days (2001 - 34 days). We are complying with the DTI Code of Practice which came into effect in mid-March.

### **Employment policies**

We are committed to promoting policies to ensure that employees and those who seek to work for us are treated equally regardless of sex, marital status, age, creed, colour, race, nationality or any other similar factors.

It is the group's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities is a matter of primary concern. Accordingly, it is the group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of employees and members of the public.

The number and wide geographic distribution of the group's operating locations make it essential to communicate effectively with employees. Communications and consultation within the group's retail activities are principally through the operational structure of store and area teams, with particular use being made of the Meeting for Everyone, which is held every two weeks, video conferencing with regional depots and Company magazines. Copies of the Company's Annual and Interim Reports are made available at the group's principal office and operating locations.

### **Charitable and Political Contributions**

During the year, the group donated £647,923 to charities (2001 - £84,101). No political contributions were made during the year (2001 - £Nil).

### **Auditors**

During the year Arthur Andersen resigned as the Company's auditors and the directors appointed KPMG Audit Plc to fill the casual vacancy arising. A resolution re-appointing KPMG Audit Plc as auditors for the ensuing year will be placed before the Annual General Meeting. Special notice has been received for this resolution pursuant to section 388 of the Companies Act 1985.

Safeway Stores plc,  
6 Millington Road,  
Hayes,  
Middlesex,  
UB3 4AY.

BY ORDER OF THE BOARD  
D. Wilson  
Secretary

18 July 2002

## **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the group and of the profit for that year. In preparing the accounts the directors are required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- \* prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the Company and the group and to prevent and detect fraud and other irregularities.



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SAFEWAY STORES plc**

We have audited the financial statements on pages 8 to 27.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 6, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 March 2002 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

*KPMG Audit Plc*  
\_\_\_\_\_

London.

18 July 2002

## **GROUP PROFIT AND LOSS ACCOUNT**

### **FOR THE YEAR ENDED 30 MARCH 2002**

		2002		2001
		Before Exceptional Items £m	Exceptional Items (Note 22) £m	(restated) £m
	Notes			
GROUP AND SHARE OF JOINT VENTURE SALES	1	9,395.6	-	8,937.3
Less: Value Added Tax		(678.4)	-	(641.1)
GROUP AND SHARE OF JOINT VENTURE SALES, excluding Value Added Tax	1	8,717.2	-	8,296.2
Less: Share of joint venture sales excluding Value Added Tax		(157.2)	-	(144.9)
GROUP TURNOVER, excluding Value Added Tax		8,560.0	-	8,151.3
Cost of sales		(6,731.5)	-	(6,463.5)
GROSS PROFIT		1,828.5	-	1,687.8
Net operating expenses	2	(1,412.1)	(19.6)	(1,295.5)
GROUP OPERATING PROFIT		416.4	(19.6)	392.3
Share of operating profit of BP joint venture	3	3.9	-	1.6
TOTAL OPERATING PROFIT:				
Group and share of joint venture		420.3	(19.6)	393.9
Net property losses	4	(0.4)	-	(5.8)
Net interest payable and similar charges	5	(36.1)	-	(45.5)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	383.8	(19.6)	342.6
Tax on profit on ordinary activities	8	(120.0)	-	(114.0)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		263.8	(19.6)	228.6
Equity minority interest		3.5	(3.5)	6.1
PROFIT FOR THE FINANCIAL YEAR		267.3	(23.1)	234.7
Dividends paid and proposed	9	(96.5)	-	(92.5)
RETAINED PROFIT FOR THE YEAR		170.8	(23.1)	142.2

Certain prior year comparative figures have been restated on the adoption of FRS19, Deferred Tax.

### **GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	2002	2001
	£m	(restated) £m
PROFIT FOR THE FINANCIAL YEAR	244.2	234.7
Prior year adjustment	(216.1)	
TOTAL GAINS SINCE LAST ANNUAL REPORT	28.1	

# BALANCE SHEETS AT 30 MARCH 2002

	Notes	GROUP		COMPANY	
		<u>2002</u>	<u>2001</u> (restated)	<u>2002</u>	<u>2001</u> (restated)
		£m	£m	£m	£m
<b>FIXED ASSETS</b>					
Tangible fixed assets	10	3,992.1	3,786.0	3,785.2	3,574.6
Investment in BP joint venture	11				
Share of gross assets		62.8	58.8		
Less: Share of gross liabilities		(10.2)	(10.7)		
		52.6	48.1		
Other investments	11	-	-	344.1	339.6
		<u>4,044.7</u>	<u>3,834.1</u>	<u>4,129.3</u>	<u>3,914.2</u>
<b>CURRENT ASSETS</b>					
Stocks	12	379.8	373.4	370.7	365.0
Debtors	13	153.8	127.5	239.8	210.3
Cash at bank and in hand		-	6.6	-	0.1
		<u>533.6</u>	<u>507.5</u>	<u>610.5</u>	<u>575.4</u>
<b>CREDITORS (due within one year)</b>					
Bank overdrafts	15	(224.2)	(265.8)	(364.1)	(327.3)
Loans	15	(155.1)	(18.7)	(2.1)	(18.7)
Other creditors	14	(1,352.0)	(1,250.8)	(1,598.1)	(1,504.5)
		<u>(1,731.3)</u>	<u>(1,535.3)</u>	<u>(1,964.3)</u>	<u>(1,850.5)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,197.7)</u>	<u>(1,027.8)</u>	<u>(1,353.8)</u>	<u>(1,275.1)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,847.0</u>	<u>2,806.3</u>	<u>2,775.5</u>	<u>2,639.1</u>
<b>CREDITORS (due after one year)</b>	15	(1,166.8)	(1,305.0)	(1,166.8)	(1,163.0)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>					
Deferred taxation	16	(229.8)	(218.2)	(224.9)	(213.9)
<b>NET ASSETS</b>		<u>1,450.4</u>	<u>1,283.1</u>	<u>1,383.8</u>	<u>1,262.2</u>
<b>CAPITAL AND RESERVES</b>					
Called-up share capital	17	229.5	229.5	229.5	229.5
Profit and loss account		<u>1,220.9</u>	<u>1,073.2</u>	<u>1,154.3</u>	<u>1,032.7</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	18	<u>1,450.4</u>	<u>1,302.7</u>	<u>1,383.8</u>	<u>1,262.2</u>
Equity minority interest		-	(19.6)	-	-
<b>TOTAL CAPITAL EMPLOYED</b>		<u>1,450.4</u>	<u>1,283.1</u>	<u>1,383.8</u>	<u>1,262.2</u>

Certain prior year comparative figures have been restated on the adoption of FRS19, Deferred Tax.

Approved by the Board of Directors on 18 July 2002 and signed on its behalf by:

C. CRIADO-PEREZ ) DIRECTORS  
S.T. LAFFIN )

Safeway Stores plc

## **STATEMENT OF ACCOUNTING POLICIES**

### **30 MARCH 2002**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### **Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. They are prepared to the Saturday nearest to 31 March, the Company's accounting reference date. Accordingly, these accounts are for the 52 week period to 30 March 2002 compared with the 52 week period to 31 March 2001. Under the provisions of Financial Reporting Standard No.1 (Revised), the company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the company and which contain a cash flow statement.

#### **Principles of consolidation**

The group accounts comprise the accounts of the company, its subsidiary undertakings and its share of the profits or losses from joint ventures. The results of subsidiaries acquired or disposed of in the year are included in the group profit and loss account as from or up to their effective date of acquisition or disposal.

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Goodwill arising in connection with the acquisition of subsidiaries and businesses prior to 3 April 1999 has been written off against reserves and has not been re-instated on the balance sheet. When a business is disposed of, the applicable goodwill is charged to the profit and loss account in the year of disposal.

Goodwill arising in the future will be capitalised and amortised in accordance with FRS10.

No profit and loss account is presented for the company, as permitted by Section 230 of the Companies Act 1985.

#### **Investments in subsidiaries and joint ventures**

In the company's accounts, investments in subsidiaries and joint ventures are stated at cost, less provision for impairment. Only dividends received and receivable are credited to the company's profit and loss account.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

Freehold land is not depreciated unless, in the opinion of the directors, an impairment has occurred.

## **STATEMENT OF ACCOUNTING POLICIES (Continued)**

Depreciation is provided to write off the cost of other tangible fixed assets over their estimated economic lives on a straight-line basis as follows:-

Freehold and long leasehold buildings	- maximum of 40 years
Short leasehold buildings	- maximum of 40 years or term of lease if less
Plant and equipment	- 4 years to a maximum of 8 years
Motor cars and commercial vehicles	- 4 years to a maximum of 6 years
Computer hardware and software	- 4 years to a maximum of 6 years

In the case of poor performing or proposed replacement stores, provisions for impairment are made in accordance with FRS11 - Impairment of Fixed Assets and Goodwill.

### **Operating leases**

Rentals under operating leases of land and buildings and other assets are charged on a straight line basis over the lease term to the profit and loss account. Surpluses on sale and operating leaseback of properties are recognised as income in the year of disposal.

### **Finance leases**

Plant, equipment and vehicles which are leased but provide the group with substantially all the benefits and risks of ownership are capitalised as fixed assets at the original cost to the lessor.

### **Stocks**

Stocks for the group comprise finished goods for resale and are stated at the lower of cost and net realisable value. For stocks at retail stores, cost is calculated by reference to selling price less appropriate trading margins.

### **Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

With effect from 1 April 2001, the group has adopted FRS19, Deferred Tax. In accordance with this accounting standard, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates expected to apply when they crystallise, based on tax and laws enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### **Foreign currency**

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

### **Pension scheme contributions**

For the defined benefit scheme contributions are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' working lives with the group.

For money purchase schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

### **Sales**

Sales represent proceeds from external customers and are inclusive of excise duty and VAT.

### **Cost of sales and distribution costs**

Cost of sales represents the purchase cost of goods for resale and includes the cost of transfer to the point of sale.

Distribution costs represent the cost of holding goods at the point of sale, selling costs and the costs of transferring goods to the customer. They include store operating expenses.

## NOTES TO THE ACCOUNTS

### 1. TRADING INFORMATION

The group's sole trading activity is grocery retailing which is carried out almost entirely in the United Kingdom.

### 2. NET OPERATING EXPENSES

	<u>2002</u> £m	<u>2001</u> £m
Distribution costs	(1,264.6)	(1,160.3)
Administrative expenses	(147.5)	(135.2)
Exceptional costs	<u>(19.6)</u>	<u>-</u>
	<u>(1,431.7)</u>	<u>(1,295.5)</u>

Included in administrative expenses is a management fee of £9.6 million (2001 - £6.4 million) payable to the ultimate holding company for services provided.

### 3. SHARE OF JOINT VENTURE OPERATING PROFIT

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 11(b) below). The total sales of £360.4 million (2001 - £332.8 million) were generated during the year from the 51 sites trading at the end of the year. The group's share of these sales (excluding VAT) was 50%, i.e. £157.2 million (2001 - £144.9 million).

The joint venture made an operating profit in the year of £7.8 million (2001 - £3.2 million). The group's share of this profit was 50% i.e. £3.9 million (2001 - £1.6 million).

During the year, the group purchased products on behalf of the partnership totalling £81.4 million (2001 - £69.8 million) and provided distribution services for a fee of £4.6 million (2001 - £3.9 million).

### 4. NET PROPERTY LOSSES

	<u>2002</u> £m	<u>2001</u> £m
Profits on property disposals	3.0	4.0
Losses on property disposals	<u>(3.4)</u>	<u>(9.8)</u>
	<u>(0.4)</u>	<u>(5.8)</u>

## 5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2002</u> £m	<u>2001</u> £m
Interest payable:		
Short term bank loans and overdrafts repayable within five years	(23.7)	(30.6)
Finance charges payable on finance leases	(0.6)	(0.5)
Loans from ultimate holding company	<u>(24.3)</u>	<u>(24.3)</u>
	(48.6)	(55.4)
Interest capitalised on freehold and long leasehold developments	<u>3.8</u>	<u>4.0</u>
	(44.8)	(51.4)
Other	<u>8.7</u>	<u>5.9</u>
	<u>(36.1)</u>	<u>(45.5)</u>

## 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:-

	<u>2002</u> £m	<u>2001</u> £m
Depreciation of tangible fixed assets	184.2	178.9
Hire charges under operating leases		
- Plant and equipment	27.7	26.0
- Property	55.0	54.0
Auditors' remuneration	0.3	0.3
Staff costs (Note 7 below)	958.8	893.2

Other fees paid to the auditors during the year totalled £55,000 (2001 - £264,000).



## 7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

- (a) The average monthly number of persons employed by the group was as follows:-

	<u>2002</u> Number	<u>2001</u> Number
Total employed	91,436	87,760
Full-time equivalent	<u>57,769</u>	<u>57,904</u>

At 30 March 2002, the total number of employees was 92,240 (2001 – 89,110) and the full-time equivalent number was 57,176 (2001 – 56,868).

- (b) Staff costs during the year amounted to:-

	<u>2002</u> £m	<u>2001</u> £m
Wages and salaries	880.4	819.6
Social security costs	56.5	53.1
Other pension costs (see note 19(d))	<u>21.9</u>	<u>20.5</u>
	<u>958.8</u>	<u>893.2</u>

- (c) Long-term incentive plan

The ultimate holding company operates a long-term incentive plan for directors and senior executives of the Company and executive directors of the ultimate holding company.

The plan is a performance share plan. Under the terms of the plan, executives receive a conditional award of shares at the beginning of a three year cycle. The actual number of shares to which executives obtain vested rights depends on the ultimate holding company's performance over that same period. Executives have no rights or entitlements to an award of shares and no awards are made if a participant has left the Company's employment prior to the end of the performance period.

Cycles have been initiated for 1999, 2000 and 2001 and it is intended to initiate a 2002 cycle. These cycles cover the financial years ending in 2002, 2003, 2004 and 2005 respectively. Awards will be determined by reference to both the ultimate holding company's total shareholder return compared to that of a basket of competitor companies and the increase in earnings per share. Both measures are determined independently and each may provide up to 50% of an individual's personal maximum award. The performance of the 1999 cycle covered the three years ended 30 March 2002. The ultimate holding company's earnings per share performance did not trigger an award. However, the total shareholder return did trigger an award of 24.5% of an individual's maximum award.

(d) Directors' emoluments:-

The total amounts for directors' remuneration and other benefits were as follows:-

	<u>2002</u> £'000	<u>2001</u> £'000
Emoluments	2,310	260
Company contributions to money purchase scheme	<u>93</u>	<u>14</u>
	<u>2,403</u>	<u>274</u>

The seventeen directors (2001 - eight directors) who served during the year were all members of the Safeway Pension Scheme, a defined benefit scheme, while nine directors (2001 - three directors) were also members of the money purchase scheme.

The directors remuneration shown above included the following in respect of the highest paid director:-

	<u>2002</u> £'000	<u>2001</u> £'000
Emoluments	402	260
Company contributions to money purchase scheme	<u>33</u>	<u>14</u>
	<u>435</u>	<u>274</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 30 March 2002 was £22,750 (2001 - £9,058).

Certain of the directors are remunerated by and as directors or officers of the ultimate holding company.

Mr. R.C.Ramsden ceased to be a director on 4 May 2001. The Company consented to a compensation payment of £260,000 and an additional contribution of £40,000 to the Safeway pension scheme.

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) The tax charge comprises:-

	<u>2002</u>	<u>2001</u> (restated)
	£m	£m
United Kingdom corporation tax at 30% (2001 - 30%)	115.7	113.0
Overseas taxes	2.0	1.3
Adjustments in respect of prior years	(9.3)	2.6
Total current tax	<u>108.4</u>	<u>116.9</u>
Deferred tax	11.6	7.3
Adjustments in respect of prior years	-	(10.2)
	<u>120.0</u>	<u>114.0</u>

No taxation relief has been assumed on the net property losses of £0.4 million (2001 - £5.8 million).

(b) Reconciliation of the current tax charge:-

	<u>2002</u>	<u>2001</u>
	£m	£m
Profit on ordinary activities before taxation	<u>364.2</u>	<u>342.6</u>
Tax at standard rate of 30%	109.3	102.8
Effect of:		
Expenses not allowable for tax purposes		
Non allowable depreciation	11.7	11.7
Other expenses	10.8	5.3
Tax losses unrelieved	1.0	3.2
Effect of overseas tax rates	(3.6)	(3.1)
Non tax relieved property losses	0.1	1.7
Accelerated capital allowances	(11.6)	(7.3)
Prior year items	(9.3)	2.6
Tax charge for year	<u>108.4</u>	<u>116.9</u>

## 9. DIVIDENDS PAID AND PROPOSED

	<u>2002</u>	<u>2001</u>
	£m	£m
Interim dividends paid (13.29p (2001 - 12.85p) per ordinary share)	30.5	29.5
Interim dividends proposed (28.75p (2001 - 27.45p) per ordinary share)	<u>66.0</u>	<u>63.0</u>
	<u>96.5</u>	<u>92.5</u>

10. **TANGIBLE FIXED ASSETS**  
**GROUP**

	<u>Land and buildings</u>			<u>Plant, Equipment And Vehicles</u>	<u>Total</u>
	<u>Freehold</u> £m	<u>Long leasehold</u> £m	<u>Short Leasehold</u> £m	£m	£m
Cost:-					
Beginning of year	3,188.6	323.1	200.6	1,351.3	5,063.6
Additions	179.2	25.2	32.9	175.0	412.3
Disposals	(8.1)	(0.7)	-	(121.8)	(130.6)
End of year	<u>3,359.7</u>	<u>347.6</u>	<u>233.5</u>	<u>1,404.5</u>	<u>5,345.3</u>
Depreciation:-					
Beginning of year	297.4	49.1	71.2	859.9	1,277.6
Charged during the year	47.3	7.8	7.5	121.6	184.2
Disposals	(0.3)	(0.7)	-	(107.6)	(108.6)
End of year	<u>344.4</u>	<u>56.2</u>	<u>78.7</u>	<u>873.9</u>	<u>1353.2</u>
Net book value:-					
Beginning of year	<u>2,891.2</u>	<u>274.0</u>	<u>129.4</u>	<u>491.4</u>	<u>3,786.0</u>
End of year	<u>3,015.3</u>	<u>291.4</u>	<u>154.8</u>	<u>530.6</u>	<u>3,992.1</u>

Assets in course of construction included in cost above:-

Beginning of year	<u>122.2</u>	<u>0.2</u>	<u>-</u>	<u>10.6</u>	<u>133.0</u>
End of year	<u>127.4</u>	<u>0.2</u>	<u>0.2</u>	<u>17.7</u>	<u>145.5</u>

Freehold land included in the total cost above amounts to £1,416.0 million (2001 - £1,355.0 million).

At 30 March 2002, the cost and depreciation values for plant, equipment and vehicles included £457.0 million of fully depreciated fixed assets (2001 - £448.6 million).

At 30 March 2002, the net book value of tangible fixed assets included £14.8 million of leased plant, equipment and vehicles (2001 - £10.9 million). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £2.0 million (2001 - £1.2 million).

Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £3.8 million (2001 - £4.0 million). The cumulative amount of interest capitalised in the total cost above amounts to £143.6 million (2001 - £139.8 million).

10. **TANGIBLE FIXED ASSETS (Continued)**  
COMPANY

	Land and buildings			Plant, Equipment And Vehicles	Total
	<u>Freehold</u> £m	<u>Long leasehold</u> £m	<u>Short leasehold</u> £m	£m	£m
Cost:-					
Beginning of year	3,028.1	283.7	197.2	1,308.5	4,817.5
Additions	178.9	25.0	32.9	169.2	406.0
Disposals	<u>(5.1)</u>	<u>(0.7)</u>	<u>-</u>	<u>(120.4)</u>	<u>(126.2)</u>
End of year	<u>3,201.9</u>	<u>308.0</u>	<u>230.1</u>	<u>1,357.3</u>	<u>5097.3</u>
Depreciation:-					
Beginning of year	288.2	43.8	70.0	840.9	1,242.9
Charged during the year	45.2	6.5	7.4	117.7	176.8
Disposals	<u>(0.2)</u>	<u>(0.7)</u>	<u>-</u>	<u>(106.7)</u>	<u>(107.6)</u>
End of year	<u>333.2</u>	<u>49.6</u>	<u>77.4</u>	<u>851.9</u>	<u>1,312.1</u>
Net book value:-					
Beginning of year	<u>2,739.9</u>	<u>239.9</u>	<u>127.2</u>	<u>467.6</u>	<u>3,574.6</u>
End of year	<u>2,868.7</u>	<u>258.4</u>	<u>152.7</u>	<u>505.4</u>	<u>3,785.2</u>
Assets in course of construction included in cost above:-					
Beginning of year	<u>95.8</u>	<u>0.2</u>	<u>-</u>	<u>10.6</u>	<u>106.6</u>
End of year	<u>111.3</u>	<u>0.2</u>	<u>0.2</u>	<u>17.7</u>	<u>129.4</u>

Freehold land included in the total cost above amounts to £1,359.2 million (2001 - £1,299.1 million).

At 30 March 2002, the cost and depreciation values for plant, equipment and vehicles included £450.0 million of fully depreciated fixed assets (2001- £444.0 million).

At 30 March 2002, the net book value of tangible fixed assets included £14.8 million of leased plant, equipment and vehicles (2001 - £10.9 million). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £2.0 million (2001 - £1.2 million).

Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £3.4 million (2001 - £4.0 million). The cumulative amount of interest capitalised in the total cost above amounts to £140.8 million (2001 - £137.3 million).

## 11. INVESTMENTS

(a) Fixed asset investments comprise:-

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£m	£m	£m	£m
Investment in BP joint venture	52.6	48.1	52.6	48.1
Subsidiaries	-	-	291.5	291.5
	<u>52.6</u>	<u>48.1</u>	<u>344.1</u>	<u>339.6</u>

(b) Investment in joint venture with BP

The group has a joint venture partnership with BP Oil UK Limited to develop, on certain sites, a joint retailing business in the convenience store market linked to petrol filling stations (Note 3 above). The investment of £52.6 million (2001 - £48.1 million) reflects the group's share of the cost of developing and fitting out these sites and our share of the profits or losses.

During the year, the increase in the investment of £4.5 million is explained by the group's share of the cost of developing and fitting out sites (£0.6 million) and its share of the profit (£3.9 million).

At 30 March 2002, the group's share of the gross assets and the gross liabilities of the partnership are considered to be material to the group and are disclosed on the face of the balance sheet. They totalled £62.8 million (2001 - £58.8 million) and £10.2 million (2001 - £10.7 million) respectively.

(c) Investments in Subsidiaries

The movement on this account during the year was:-

	<u>2002</u>	<u>2001</u>
	£m	£m
Beginning of year	291.5	291.5
Additions during the year	-	-
End of year	<u>291.5</u>	<u>291.5</u>

Set out below are the Company's principal subsidiaries:

Company	% holding	Principal area of operation	Country of registration	Business
Safeway Stores (Ireland) Limited	50.01	Northern Ireland	England	Grocery retailer
Safeway (Overseas) Limited	100.00	Channel Islands, Gibraltar and Isle of Man	England	Grocery retailer

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return of the Company.

## 12. STOCKS

There is no significant difference between the balance sheet value and replacement cost of stocks.

## 13. DEBTORS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trading debtors	105.3	82.5	105.3	82.5
Amounts owed by group undertakings	-	-	91.6	87.1
Amounts owed by BP joint venture	-	0.1	-	0.1
Interest receivable	2.1	1.4	-	-
Tangible fixed asset disposals	2.6	-	2.6	-
Other debtors	22.1	23.2	18.6	20.3
Prepayments and accrued income	21.7	20.3	21.7	20.3
	<u>153.8</u>	<u>127.5</u>	<u>239.8</u>	<u>210.3</u>

The amounts due from group undertakings are non interest bearing.

## 14. OTHER CREDITORS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£m	£m	£m	£m
Amounts falling due within one year:-				
Trade creditors	685.2	684.7	684.9	684.7
Amounts owed to ultimate holding company	55.9	2.3	55.9	2.3
Amounts owed to group undertakings	-	-	269.5	260.0
Amounts owed to other group companies	113.7	113.7	113.7	113.7
Current taxation	70.0	77.0	50.0	74.1
Interest payable	1.0	1.4	0.7	1.0
Capital expenditure	120.7	77.9	120.7	77.9
Social Security and PAYE	17.4	16.8	17.4	16.8
VAT	24.9	24.0	24.9	24.0
Other creditors	132.2	120.5	130.4	130.6
Accruals and deferred income	64.5	69.3	63.5	56.2
Accrued pension contributions	0.5	0.2	0.5	0.2
Proposed dividends	66.0	63.0	66.0	63.0
	<u>1,352.0</u>	<u>1,250.8</u>	<u>1,598.1</u>	<u>1,504.5</u>

The amounts due to the ultimate holding company, group undertakings and other group companies are all non-interest bearing.

## 15. FINANCIAL LIABILITIES

	Interest Rate	GROUP		COMPANY	
		<u>2002</u> £m	<u>2001</u> £m	<u>2002</u> £m	<u>2001</u> £m
Due to ultimate					
Holding company	Various	1,150.0	1,150.0	1,150.0	1,150.0
Unsecured overdrafts	Floating	224.2	265.8	364.1	327.3
Unsecured loan 2001	Floating	-	16.0	-	16.0
Unsecured bank loan 2002	Floating	153.0	142.0	-	-
Lease loan capital	Fixed	15.2	12.0	15.2	12.0
Other loan notes	Floating	3.7	3.7	3.7	3.7
		<u>1,546.1</u>	<u>1,589.5</u>	<u>1,533.0</u>	<u>1,509.0</u>
Less: Amount repayable					
Within one year		<u>(379.3)</u>	<u>(284.5)</u>	<u>(366.2)</u>	<u>(346.0)</u>
Amounts payable after one year		<u>1,166.8</u>	<u>1,305.0</u>	<u>1,166.8</u>	<u>1,163.0</u>

Financial liabilities are repayable as follows:-

	GROUP		COMPANY	
	<u>2002</u> £m	<u>2001</u> £m	<u>2002</u> £m	<u>2001</u> £m
Due within one year:				
Bank	377.2	265.8	364.1	327.3
Lease	2.1	2.7	2.1	2.7
Other	-	16.0	-	16.0
Due within one to two years:				
Bank	-	142.0	-	-
Lease	2.0	1.3	2.0	1.3
Due within two to five years:				
Lease	6.5	4.3	6.5	4.3
Due after five years:				
Lease	4.6	3.7	4.6	3.7
Other	3.7	3.7	3.7	3.7
	<u>396.1</u>	<u>439.5</u>	<u>383.0</u>	<u>359.0</u>
No fixed repayment date	<u>1,150.0</u>	<u>1,150.0</u>	<u>1,150.0</u>	<u>1,150.0</u>
	<u>1,546.1</u>	<u>1,589.5</u>	<u>1,533.0</u>	<u>1,509.0</u>

The amount due to the ultimate holding company includes £300.0 million (2001 - £300.0 million) bearing interest at current market rates and repayable at one month's notice. The balancing items due to the ultimate holding company are non interest bearing and are repayable at twelve months' notice.



## 16. DEFERRED TAXATION

The group has changed its accounting policy to comply with FRS19, Deferred Tax, and has therefore provided for deferred tax in full. Previously deferred tax was provided to the extent that it was probable that a liability would crystallise.

The movement in deferred taxation during the year was:-

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
		(restated)		(restated)
	£m	£m	£m	£m
Beginning of year	218.2	221.1	213.9	217.2
Charge/(release) to p&l account	<u>11.6</u>	<u>(2.9)</u>	<u>11.0</u>	<u>(3.3)</u>
End of year	<u>229.8</u>	<u>218.2</u>	<u>224.9</u>	<u>213.9</u>

The deferred tax liability above arises wholly in respect of tax allowances in excess of recorded depreciation. No deferred tax asset has been recognised in respect of unrelieved tax losses as there is insufficient certainty that these losses will be utilised within the immediate future.

## 17. CALLED-UP SHARE CAPITAL

	<u>2002</u>	<u>2001</u>
	£m	£m
Authorised:-		
250,000,000 Ordinary shares of £1 each	<u>250.0</u>	<u>250.0</u>
Allotted, called-up and fully paid:-		
229,536,776 Ordinary shares of £1 each	<u>229.5</u>	<u>229.5</u>

## 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u> (restated)	<u>2002</u>	<u>2001</u> (restated)
	£m	£m	£m	£m
Profit for the financial year	244.2	241.8	218.1	234.3
Prior year adjustment	-	(7.1)	-	(6.9)
Dividends paid and proposed	<u>(96.5)</u>	<u>(92.5)</u>	<u>(96.5)</u>	<u>(92.5)</u>
Net addition to shareholders' funds	147.7	142.2	121.6	134.9
Equity shareholders' funds, beginning of year	1,302.7	1,369.5	1,262.2	1,334.3
Prior year adjustment	<u>-</u>	<u>(209.0)</u>	<u>-</u>	<u>(207.0)</u>
Equity shareholders' funds, end of year	<u>1,450.4</u>	<u>1,302.7</u>	<u>1,383.8</u>	<u>1,262.2</u>

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off against the group's reserves is £581.3 million (2001 - £581.3 million) and £39.2 million (2001 - £39.2 million) of negative goodwill has been credited direct to reserves.

## 19. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments authorised and contracted for at the year end totalled £27.9 million (2001 - £28.6 million).

(b) Lease commitments

The group's aggregate minimum annual rentals under non-cancellable leases inclusive of unconditional future obligations are as follows:-

	PROPERTY		PLANT AND EQUIPMENT	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£m	£m	£m	£m
Operating leases which expire:-				
Within one year	0.2	0.3	12.0	5.3
Within two to five years	3.3	4.7	19.6	22.6
After five years	<u>49.6</u>	<u>48.8</u>	<u>-</u>	<u>-</u>
	<u>53.1</u>	<u>53.8</u>	<u>31.6</u>	<u>27.9</u>

(c) Guarantees

At 30 March 2002, the company together with other group companies, has jointly and severally guaranteed certain of the group's bank overdraft and loan facilities.

(d) Pension schemes

The Safeway group maintains pension schemes for all eligible full-time and part-time employees. Scheme funds are administered by Trustees and are independent of group finances. Investment of pension scheme assets in group companies is not permitted by the Trustees.

The principal scheme, the Safeway Pension Scheme, is a defined benefit scheme. The pension cost relating to the scheme is assessed in accordance with the advice of independent actuaries and is such as to spread the cost of pensions over the working lives of the employees who are scheme members.

The latest valuation of the scheme was carried out as at 1 April 2001 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the discount rate, the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that retail price inflation would be 2.3% per annum, that the discount rate would be 5.3% per annum, that the average rate of return on investments would be 6.9% per annum, that salary increases (excluding promotional increases) would average 3.8% per annum and that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 2.3% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme (excluding members' Additional Voluntary Contributions) was £919 million and the actuarial value of the assets was sufficient to cover 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The excess is being eliminated as a uniform annual percentage of pensionable pay over 12 years, this being the approximate average remaining service life of scheme members.

The total pension cost for the year amounted to £21.9 million (2001 - £20.3 million). This reflected a regular cost of £28.8 million (2001 - £28.1 million) and a credit of £6.9 million (2001 - £7.8 million). The credit relates primarily to the amortisation of the excess of assets over liabilities in the principal scheme, as described above. The pensionable payroll for the year in the principal scheme was £242.9 million (2001 - £229.3 million).

The group has continued to account for pensions in accordance with SSAP24. The following additional disclosures are required under the transitional provisions of FRS17.

FRS17

In accordance with the requirements of FRS17, 'Retirement Benefits', this note discloses the main financial assumptions made in valuing the liabilities of the Safeway Pension Scheme and the fair value of assets held.

The disclosures in this note are based on the calculations carried out in the most recent actuarial valuation of the scheme as at 1 April 2001, updated to 1 April 2002 by a qualified independent actuary. The major assumptions used by the actuary for this purpose were:

	<u>2002</u>
Price inflation	2.8%
Salary increases (excluding promotional increases)	4.3%
Pension increases	2.8%
Discount rate for scheme liabilities	5.9%

The above assumptions are the directors' best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The value of the assets in the scheme, the long term expected rate of return on each class of asset and the value of the scheme's liabilities assessed using the assumptions described above, are shown below:

	Long-term rate of return expected	<u>2002</u> Value £m
Equities	8.7%	717.0
Bonds	5.9%	123.0
Property	6.0%	10.0
Cash	3.5%	<u>45.0</u>
Total market value of scheme assets		895.0
Present value of scheme liabilities		<u>(841.0)</u>
Surplus in scheme		54.0
Related deferred tax liability		<u>(16.2)</u>
Net pension asset		<u>37.8</u>

The fair value of the scheme's assets may be subject to significant change before they are realised. The present value of the scheme's liabilities is derived from cash flow projections over long periods and is thus inherently uncertain. If the amounts had been recognised in the financial statements, the group's profit and loss account reserves would have been stated as follows:

	<u>2002</u> £m
Profit and loss account excluding pension asset	1,244.0
Pension asset (net of related deferred tax liability)	<u>37.8</u>
Profit and loss account reserves including pension asset	<u>1,281.8</u>

## 20. CASH FLOW AND RELATED PARTY TRANSACTIONS

Under the provisions of Financial Reporting Standard No.1 (Revised), the company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the company and which contain a cash flow statement.

Under the provisions of Financial Reporting Standard No.8, the company has not disclosed details of inter-group transactions because its ultimate holding company has prepared consolidated accounts which include the company and are available to the public.

## **21. ULTIMATE HOLDING COMPANY**

The company's ultimate holding company is Safeway plc, which heads the smallest and largest group in which the accounts are consolidated. These consolidated accounts are available to the public and may be obtained from their registered office at 6 Millington Road, Hayes, Middlesex, UB3 4AY.

## **22. ACQUISITION OF REMAINING 50% SHARE IN SAFEWAY STORES (IRELAND) LIMITED**

On 5 July 2002 the Company acquired the 50% share of Safeway Stores (Ireland) Limited which it did not already own. The Company paid Fitzwilton £13.8m for its shareholding in Safeway Stores (Ireland) Limited and, under the terms of the joint venture agreement, a further £8.3m as a termination payment. The Company has written off the £23.1m accumulated deficit attributable to Fitzwilton's minority interest in the joint venture as at 30 March 2002.